

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 ARA-10 ISO-00 SS-15 NSC-05 IO-13 AID-05

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USIA-06 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01

ABF-01 OES-07 STR-05 CEA-01 L-03 H-01 PA-01

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APPROVED BY S/S-O:SGOLDSMITH

TREAS:OASIA:FMARESCA

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FM SECSTATE WASHDC

TO AMEMBASSY LIMA

C O N F I D E N T I A L STATE 252027

E.O. 11652: GDS

TAGS: PFOR, EFIN

SUBJECT: SEPTEMBER 29 MEETING WITH PERUVIAN DELEGATION  
TO BANK/FUND MEETING

1. ON THURSDAY, SEPTEMBER 29 AT 3:30 P.M., A WORKING LEVEL MEETING WAS HELD WITH MEMBERS OF THE PERUVIAN DELEGATION TO THE BANK/FUND MEETINGS, AS A FOLLOW-UP TO THE SEPTEMBER 26 MEETING BETWEEN PERUVIAN FINANCE MINISTER SAENZ AND TREASURY UNDER SECRETARY SOLOMON. ON THE PERUVIAN SIDE, GERMAN DE LA MELENA, PRESIDENT OF THE CENTRAL RESERVE BANK; JOSE LUIS BROUSSET, PRESIDENT OF THE BANCO POPULAR; AND, JULIO VEGA AND IGOR VELAZQUEZ FROM THE PERUVIAN EMBASSY, ATTENDED. THE U.S. PARTICIPANTS WERE DEPUTY ASSISTANT SECRETARY NACHMANOFF, RICHARD FISHER, FRANK MARESCA AND JILL GIANOLA FROM TREASURY AND  
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DEPUTY ASSISTANT SECRETARY ARELLANO, MALCOLM BARNEBEY, AND STEPHEN ROGERS FROM STATE.

2. THE DISCUSSION FOCUSED ON THE MEMORANDUM ON THE ECONOMIC AND FINANCIAL POLICY OF THE GOVERNMENT OF PERU, WHICH MINISTER SAENZ GAVE MR. SOLOMON THE PRECEDING MONDAY. MR. MARESCA ASKED IF ALL OF THE TARGETS DESCRIBED

IN THE MEMORANDUM WERE TARGETS OF THE STAND-BY ARRANGEMENT AGREED TO (IN PRINCIPLE) WITH THE IMF. MR. DE LA MELEMA

SAID THAT EVERYTHING IN THE MEMORANDUM IS PART OF THE STAND-BY PROGRAM (WHICH WILL BE IN EFFECT THROUGH DECEMBER 1979) AND ALL THE TARGETS ARE THOSE AGREED TO WITH THE FUND.

3. MR. MARESCA ASKED IF THE PERUVIANS COULD ELABORATE ON THE EXCHANGERATE POLICY SINCE IT IS ONLY DESCRIBED IN VERY GOAL TERMS IN THE MEMORANDUM. MR. DE LA MELENA SAID THE GOAL WAS TO REACH A UNIFIED EXCHANGE RATE WHICH WAS IN EQUILIBRIUM. HE SAID THE CURRENT EXCHANGE RATE WAS NOT FAR FROM AN EQUILIBRIUM RATE.

4. MR. MARESCA THEN ASKED WHAT THE \$602 MILLION FIGURE GIVEN FOR OFFICIAL LOANS IN 1977 REPRESENTED (IN TABLE 1, BALANCE OF PAYMENTS). MR. DE LA MELENA REPLIED THAT THE FIGURE REPRESENTED DISBURSEMENTS FROM ALREADY COMMITTED LOANS. REGARDING THE LARGE FIGURE FOR SHORT-TERM CAPITAL AND ERRORS AND OMISSIONS FOR 1977 (MINUS \$189 MILLION), THE PERUVIANS SAID THIS LINE ITEM CONSISTED MAINLY OF SUPPLIERS CREDITS, AND THE LARGE OUTFLOW WAS THE RESULT OF THE NET REPAYMENT OF A PORTION OF THESE CREDITS, DUE PARTLY TO THE CONTRACTION IN IMPORTS. THE AVERAGE AMOUNT OF SUPPLIERS CREDITS OUTSTANDING IS ABOUT \$600 MILLION. CONFIDENTIAL

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5. MR. MARESCA ASKED HOW THE PERUVIANS HAD BEEN ABLE TO FINANCE THEIR BALANCE OF PAYMENTS GAP SO FAR THIS YEAR AND WHAT THE OUTLOOK WAS FOR THE REST OF 1977. IN PARTICULAR, MR. MARESCA POINTED OUT THAT, ACCORDING TO FOOTNOTE (1) IN TABLE 4(A) OF THE MEMORANDUM, PERU RECEIVED \$151.6 MILLION IN CREDITS FROM SEVERAL SOURCES IN SEPTEMBER, INCLUDING \$50 MILLION FROM VENEZUELA AND \$40 MILLION FROM BRAZIL. THUS, IT APPEARED PERU COULD MAKE IT THROUGH 1977. MR. MARESCA ALSO NOTED THAT ALTHOUGH THE FOOTNOTE SHOWS CREDITS OF \$151.6 MILLION RECEIVED, THE TABLE SHOWED AN INFLOW OF ONLY \$76.4 MILLION IN SEPTEMBER.

6. MR. BROUSSET SAID THE EXTERNAL GAP HAD BEEN FINANCED FROM A VARIETY OF SOURCES: DRAWDOWNS ON RESERVES, MEDIUM-TERM CREDITS FROM THE IMF (FROM THE OIL FACILITY AND COMPENSATORY FINANCING FACILITY), AND DISBURSEMENTS FROM ALREADY COMMITTED LOANS FROM COMMERCIAL BANKS. HE SAID THAT ONLY PART OF THE \$151.6 MILLION IN CREDITS RECEIVED IN SEPTEMBER HAD ACTUALLY BEEN DISBURSED THAT MONTH; THE REST WOULD BE DISBURSED LATER. HE ADMITTED THAT PERU

COULD SQUEAK BY THIS YEAR BUT SAID THE FIRST QUARTER OF 1978 WAS GOING TO BE DIFFICULT. SPECULATION OVER THE UNCERTAIN ECONOMIC SITUATION HAS EXERTED UNUSUAL PRESSURES

ON THE BALANCE OF PAYMENTS AND THE GOP ANTICIPATES AN EXTRAORDINARY LEVEL OF IMPORTS AND EVEN SOME ADVANCE PAYMENTS. THEREFORE, THE GOP NEEDS TO BUILD UP ITS INTERNATIONAL RESERVES AS A KIND OF CONTINGENCY FUND. THE GOAL IS TO OBTAIN ABOUT \$100 MILLION WHICH WOULD BRING NET RESERVES TO ZERO. IN ADDITION, PERU DOES NOT WANT TO HAVE TO GO TO THE COMMERCIAL BANKS YET. FOR THE NEXT YEAR OR SO, PERU HOPES TO GET BY ON LOANS FROM THE IMF AND BRIDGE FINANCING; AFTER THAT, PERU WILL APPROACH THE COMMERCIAL BANKS FOR MEDIUM- AND LONG-TERM CREDITS. CONFIDENTIAL

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7. MR. MARESCA ASKED WHETHER AMORTIZATION PAYMENTS WERE INCLUDED IN THE CENTRAL GOVERNMENT DEFICIT, AS SHOWN ON TABLE 8 OF THE MEMORANDUM. IN PARTICULAR, IT WAS IMPORTANT TO KNOW WHETHER THE CEILINGS ON THE BUDGET DEFICIT WHICH HAD BEEN AGREED TO WITH THE IMF WERE BASED ON THE TOTAL DEFICIT, INCLUDING AMORTIZATION PAYMENTS. THE PERUVIANS ANSWERED THAT AMORTIZATION PAYMENTS WERE NOT A COMPONENT OF THE "ECONOMIC DEFICIT" (TABLE 8) BUT WERE INCLUDED IN THE FIGURES ON FINANCING (WHICH ARE NET FIGURES). THE PERUVIANS DID NOT GIVE AN INDICATION OF HOW LARGE THE AMORTIZATION PAYMENTS WERE: THEY ONLY SAID THAT THEY ARE TRYING TO REDUCE THE PROPORTION OF THE DEFICIT FINANCED BY THE DOMESTIC BANKING SYSTEM.

8. MR. BROUSSET MADE A STRONG PLEA FOR ADDITIONAL PL 480 FUNDS. HE EMPHASIZED THAT THIS PROGRAM HAS THE ADVANTAGE OF PROVIDING LOCAL CURRENCY FOR INVESTMENT PROJECTS IN PERU. GIVEN THE ECONOMIC SITUATION, INVESTMENT HAS FALLEN AND PL 480 FUNDS WOULD BE A WELCOME SUPPLEMENT. MR. MARESCA AND MR. ARELLANO REVIEWED THE KINDS OF CONCESSIONAL AND NON-CONCESSIONAL ASSISTANCE EARMARKED FOR PERU. THEY SAID THEY HOPED THE AMOUNT OF PL 480 FOR PERU COULD BE ENLARGED, BUT MENTIONED THE CONGRESSIONAL RESTRAINTS ON ALLOCATION OF THIS MONEY. MR. MARESCA SAID THERE WAS THE POSSIBILITY THAT THE CCC BUDGET WOULD BE EXPANDED AND IF THAT HAPPENED, PERU COULD RECEIVE ADDITIONAL CCC CREDITS. HE URGED THE PERUVIANS TO UTILIZE THE HOUSING INVESTMENT GUARANTEES BECAUSE THE GRANTING OF HIGS DEPENDS TO A GREAT EXTENT ON THE COUNTRY'S ABILITY TO ABSORB THEM.

9. MR. BROUSSET THEN PROPOSED A WAY THE U.S. TREASURY  
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DEPARTMENT COULD HELP PERU. BECAUSE IT WILL BE AT LEAST SIX MONTHS BEFORE PERU CAN TAP THE WITTEVEEN FACILITY, BROUSSET ASKED IF THE U.S. TREASURY COULD ADVANCE PERU THE \$90 MILLION THEY EXPECT TO RECEIVE FROM THE FACILITY. MR. MARESCA SAID THERE WERE SOME SERIOUS PROBLEMS WITH THIS PROPOSAL: FIRST, PERU DOES NOT KNOW EXACTLY HOW MUCH IT COULD GET FROM THE FACILITY AND, SECOND, THERE

ARE SEVERAL COUNTRIES IN THE SAME POSITION AND THIS MIGHT BE A DANGEROUS PRECEDENT.

10. BROUSSET ALSO MENTIONED PERU'S RELATIONS WITH EXIMBANK. HE SAID THE BANCO POPULAR HAS A LINE OF CREDIT WITH EXIMBANK BUT WAS NOT ALLOWED TO USE IT FOR THE PURCHASE OF CERTAIN KINDS OF VEHICLES. MR. MARESCA SUGGESTED THE PERUVIANS MEET DIRECTLY WITH EXIMBANK.

11. COMMENT: THE MEETING LEFT AT LEAST TWO POINTS UNCLEAR. WE STILL DO NOT HAVE A GOOD IDEA OF WHAT THE \$200 MILLION FINANCIAL GAP (REFERRED TO IN THE MEMORANDUM) IS OR WHAT TIME PERIOD IT COVERS. IT APPEARS THAT PERU CAN MAKE IT THROUGH 1977 BUT THAT 1978 (PARTICULARLY THE FIRST QUARTER) IS THE REAL PROBLEM. IN ADDITION, WE DO NOT KNOW WHICH BUDGET DEFICIT CEILINGS WERE AGREED TO WITH THE IMF NOR DO WE KNOW THE SIZE OF THE TOTAL DEFICIT (INCLUDING AMORTIZATION PAYMENTS).

12. NOTE: THE PERUVIAN ECONOMIC MEMORANDUM REFERRED TO ABOVE WAS RECENTLY POUCHED TO THE EMBASSY. VANCE

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## Message Attributes

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